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UNCLAS SECTION 01 OF 03 KUWAIT 001496

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E.O. 12958: N/A
TAGS: ECON EPET ENRG KU OIL SECTOR
SUBJECT: KUWAIT ENERGY UPDATE: RECORD PRICES AND PROFITS, GAS PLANS, AND PRODUCTION INCREASE

REF: KUWAIT 0943

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¶1. (U) Summary: Kuwait Export Crude hits another record high in March, while sustained high oil prices push Kuwait's budget surplus to $9.2 billion for the current fiscal year and as high as $12-$13 billion in the next. Kuwait Oil Company expects to boost crude exports by an additional 150,000 barrels per day by the end of April when the rehabilitation of the Gathering Center 15 facility is complete. KOC's Gas Management Division chief describes how Kuwait is moving ahead with its gas plans, including plans for importation, drilling, and increased domestic consumption of gas, and he asks for increased involvement in the sector by U.S. companies. KPC continues expanding into foreign markets, and the PR campaign for the Kuwait Project rolls on. The Energy Minister adds to his already overburdened schedule and temporarily takes on the Health Ministry portfolio after the resignation of the Health Minister. End Summary.

KEC Hits Record High

¶2. (U) Kuwait Export Crude (KEC) averaged $43.25 per barrel for the month of March 2005, an all-time record high for a monthly average. Fiscal year 2004-2005 and 2005-2006 budget surpluses, based on 2004-2005 barrel prices, are projected to be KD 2.7 billion ($9.2 billion) each year. The average price per barrel in 2005 so far has been $39.40, however, which would end up providing a 2005-2006 budget surplus of KD 3.8 billion ($12.9 billion), if this price scenario keeps up.

Additional Production Coming Online

¶3. (U) Kuwait is expecting to be able to boost its crude exports by an additional 150,000 barrels per day by the end of April 2005 when the rehabilitation of the Gathering Center 15 (GC-15) facility is complete. The GC-15 facility was damaged in an accidental explosion in January 2002 and kept approximately 300,000 bpd in exports off the market. An initial 100,000 bpd was activated when the GC-15 was first reopened in January 2005, and the remaining 150,000 is expected to come online by the end of the month. The GC-15 facility is the largest in Kuwait and is able to handle between 250,000 and 300,000 bpd, possible more in the event of an emergency.

Gas Network Plans

¶4. (SBU) In a meeting with Econ Officer, Kuwait Oil Company (KOC) Gas Management Group Manager Mohammad Al-Otaibi said that we are now in the "gas century" and that the gas business in Kuwait is "absolutely necessary" for Kuwait's power stations, its consumers, its petrochemical plants, and the business community as it turns to gas-powered factories. He said that 60,000 barrels of oil were being used each day just to refine gas to be used in Kuwait's power plants, and added that KOC's three-year plan forecasts a demand of 1.7 billion cubic feet of gas per day. Al-Otaibi's team is preparing feasibility studies now on creating a gas pipeline network to service consumers and businesses throughout the country, and is working with the Kuwait Chamber of Commerce and Industry (KCCI) to survey businesses on their estimated future gas usage.

¶5. (SBU) Echoing what post has heard from other sources (reftel), Al-Otaibi said that Kuwait's options for gas included importing it from Qatar, Iraq, and Iran, drilling for gas in the offshore Al-Durra field, or refining it from crude petroleum. Al-Otaibi said that drilling in the offshore Al-Durra field would require time and a "political decision," He added that, if the GOK gave the industry the go-ahead to drill in Al-Durra, it would be handled by Kuwait

Gulf Oil Company (KGOC) and not KOC, whenever it did commence. He said that KGOC would need to bring in outside expertise, however, and that gas exploration, especially offshore, would require the help of foreign companies.

¶6. (SBU) Al-Otaibi seemed perplexed that more U.S. companies were not actively trying to sell products and services into the growing gas sector in Kuwait, and asked for Embassy support in getting more U.S. companies interested in the market. He said that KOC needed consultants for refinery and network upgrades and a new booster station. He said that many American companies have sent him brochures, but that few have actively contacted KOC's gas division looking for business. He said that most of the parts and supplies came from Italian and Korean companies and that he would like to do business with U.S. companies, if they are interested.

Foreign Expansion

¶7. (U) Following on a March 2005 deal between Kuwait Petroleum Corporation (KPC) and BP to seek joint investment opportunities in China, Royal Dutch/Shell Group signed its own deal with KPC for a similar arrangement downstream opportunities in China and India. The arrangements are seen as a way to finance and develop new refineries in the region. Press and rumor-mill speculation say that BP and Shell have signed these deals not so much for the importance of KPC's involvement in Asia but more for raising the profile of the two foreign companies as they jockey for position in the long-awaiting bidding for the development of the northern oilfields.

¶8. (U) In other foreign expansion plans, KPC has inaugurated its new Beijing office with a visit at the end of March by KPC International Marketing Managing Director Jamal Al-Nouri. Al-Nouri has said that KPC hopes to sign a long-term contract with China for supplies of crude. KPC now has offices in China and Japan. KPC's own subsidiary, the Kuwait Foreign Petroleum Exploration Company (KUFPEC), has just reported $103.8 million in profits for 2004, an 18.2% increase from 2003. The companies operates in 11 foreign countries and owns reported reserves of about 190 million barrels of natural gas and 60 million barrels of oil.

Refinery Maintenance and Shutdowns

¶9. (U) March 28 online news sources reported that the 270,000 bpd Mina Abdallah refinery would undertake scheduled maintenance in April, reducing output by about 42,500 bpd for a short period of time. Additionally, it was reported that the entire refinery would close down for maintenance in September 2006. The refinery management also recently reported record profits of $614 million in the first nine months of the current fiscal year.

Kuwait Project: PR Campaign in Full Swing

¶10. (U) The public relations campaign for the development of the northern oilfields (the "Kuwait Project") is in full swing, with Minister of Energy Shaykh Ahmed Al-Fahd Al-Ahmed Al-Sabah and top KPC officials making frequent public appearances to defend the project. The National Assembly's Financial and Economic Affairs Committee is wrapping up its study of the enabling law for the project and should issue its report to the full Assembly soon. Some Islamists and others opposed to the project in the past have now come out publicly for it, citing the PR campaign as the deciding factor. Other MPs and economists, such as Jassem Al-Saadoun of the Al-Shall Economic Report, remain opposed to the project. The cost of the project is now being reported as $8.5 billion, up from the $7 billion previously reported.

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¶11. (U) The Kuwait Gulf Oil Company (KGOC) will soon take over KOC's management of Kuwait's portion of the onshore joint operation in the Saudi-Kuwait divided zone, consolidating all of Kuwait's divided zone operations within KGOC. EQUATE, the petrochemical joint venture between Dow Chemical and Kuwait's Petrochemical Industries Company, has posted record profits of $620.5 million for 2004, a 126% increase over 2003. KPC is close to launching a new services company, which will handle security, healthcare, and logistics for all of KPC's subsidiaries. The Supreme Petroleum Council is expected to approve the charter of the new services company soon. Finally, after the Health Minister submitted his resignation on April 10, the Energy Minister was given the Health Ministry portfolio to watch over temporarily. According to press reports, he does not expect to serve in this capacity "for more than fifteen days" and has already empowered the Health Ministry's undersecretaries and assistant undersecretaries to run the day-to-day affairs of the Ministry.

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